

Deciding to be *profitable*

Most business owners were taught to think about profits as the difference between all expenses and all revenues. To prepare a future operating plan, many were taught to start with the previous year's operating expenses, determine what to eliminate and add in a factor for inflation to the expenses that remain and then come up with a revenue forecast that seemed achievable. Profits were thought to be "what's left over."

**Having
profit comes
from making
a conscious
decision.**

Profit is too important to be an afterthought. Profit is responsible for everything good that can happen to everyone within an organization including pay raises, promotions, new training

opportunities, bonuses, retained earnings for future growth and returns on capital for owners.

Having profit comes from business owners making a conscious decision instead of allowing other circumstances to dictate results. Business owners should start the planning process with a fair and reasonable profit goal — preferably at least 20 percent, pre-tax. By subtracting the profit goal from a conservative revenue forecast, expenses then become "what's left over."

The trick is to develop strategies and ideas for achieving revenue goals without exceeding the spending limits necessary to achieve the profit goals.

The American Rental Association's *Cost of Doing Business Report* can help unlock the secrets to making a fair profit. The report shows how the most successful rental operators achieve their goals and the following five-step approach could help you significantly improve profitability.

Statistics provided in the *2004/2005 Cost of Doing Business Report* for a general rental store with 30 to 59 percent of its revenue derived from general tool rentals were used to help illustrate these steps.

■ **Comparing your company to your peers** — The chart on the opposite page, "General tool rental companies, Common-sized income statement," is a

summary of the median total revenue and the major categories of expenses for both the all-company average performance and the performance of the top 25 percent of general tool companies in the report based upon profitability.

The general tool rental companies in the top 25 percent are making a 16.1-percent operating profit, after subtracting all operating expenses, including owner compensation. The average pre-tax profit of all companies in the report is 5.6 percent. In the top 25 percent most profitable companies, owner compensation and pre-tax profit is about \$128,000 more per year.

This comparison shows that more revenue does not always translate into higher profits as the most profitable of all types of rental companies in the report have slightly less revenue.

■ **Deciding to increase profits** — Creating a profitable operating plan starts with setting a profit goal. A fair and reasonable goal for all service companies should be 20 percent in relation to the capital invested, assumed risks and superior service provided to customers. When one receives great service at a good restaurant, most will leave a 15- or 20-percent gratuity. You deserve the same consideration and the top rental companies have proven that this goal is

Strategies and ideas to achieve a 20-percent operating profit

By Tom Ross

General tool rental companies Common-sized income statement

	All Companies		Top 25%	
	\$	%	\$	%
Revenue	957,698	100.0	900,223	100.0
Direct Costs	329,448	34.4	254,763	28.3
Gross Profit	628,250	65.6	645,460	71.7
Owner Compensation	62,250	6.5	99,025	11.0
Other Employee Costs	269,113	28.1	193,548	21.5
All Other Operating Expenses	243,256	25.4	207,951	23.1
Total Operating Expenses	574,619	60.0	500,524	55.6
Pre-tax profit	53,631	5.6	144,936	16.1
Owner Compensation + Profit	115,881	12.1	243,961	27.1

Source: 2004-2005 Cost of Doing Business Report

possible since the top 25 percent in the general tool category averaged a 16.1-percent profit.

■ Coming up with new revenue ideas — A business that fails to grow usually is doomed to failure. The following are four examples of revenue-building ideas proven successful and shared by those attending the annual International Alert Users Association's conference last November in Colorado Springs, Colo.

Consider your location. If your business is doing well, perhaps you should consider

opening another location. Conversely, if you have a struggling secondary location, consider closing it. Moving or expanding your current location might be a key decision. Different clients have used these strategies and found success by thoroughly analyzing local conditions and adding creative insights into local possibilities.

Improve your physical facilities. No matter what customers say, studies have shown that appearances count. Do you need a bigger showroom, more display space or wider

aisles? Should you have more counter space, more parking spaces, fresh paint or new décor? Are the repair and storage areas adequate? Will potential customers conclude that you rent first-class tools in excellent condition? You only get one chance to make a first impression, whether it is a drive-by or a walk-in. Make that first impression work for you.

Know what additional inventory to purchase. Every rental store needs to replace aging equipment and supplement insufficient supplies of its most popular equipment. The ►

PROFIT From Page 45 most successful operators train their counter people to keep track of missed rental reports, sub-rentals and excess inventory that can be converted into cash. The resulting reports at the end of the year provide a shopping list to use at **The Rental Show**.

Recognize new opportunities. You are limited only by your imagination and knowledge of what your market needs. Most successful operators are always looking for new categories of equipment to rent. What do your competitors rent that you don't? What do your best customers ask for that you don't have?

■ **Forecasting revenue** — A temptation is to forecast higher revenues in order to have more left over for expenses. Don't do it. You need to be at least 95 percent confident in your revenue assessment and the forecast should be conservative, allowing for the unexpected, but also including new revenue ideas.

Your revenue forecast also should consider local conditions that affect

your business, including the state of the local construction business, the local economy and the presence of new competitors.

Experience also has shown that improving profitability solely by growing revenues usually dooms a company. This is because good employees tend to fill their time with whatever job they currently have. When extra revenue comes in, they do not have the time to take care of the extra work that the new revenue represents. Current jobs need to be re-engineered to create more time availability. Otherwise, a company will have to hire new help to do the work represented by the new revenue, which usually increases expenses, not profitability.

■ **Reducing expenses** — The chart below, "Planning for profit next year," includes a "last year" column representing the performance of an average general tool business in the preceding year. The "next year" column represents that same company with a conservative forecast of an 8-percent increase in revenue

with expenses in line with the top 25 percent most profitable companies. The "differences" column shows the amount that expenses will need to be changed in order to be in line with the top 25 percent. In this example, in order to achieve a first-year goal of a 16.1-percent operating profit — the average profit of the top 25 general tool companies — you would need to reduce direct costs by \$36,737.

Now comes the hard part of achieving your goal — cutting traditional expenses. While this is difficult, it can be done because other companies have been doing it for years. The following three examples are ways Alert clients have reduced expenses.

Reduce full-time staff. This is perhaps the most difficult task, but you need to do it for the benefit of the company as a whole and the remaining employees. Profitability is responsible for everything good that happens to employees and company owners. You need to emulate the practices of the most successful operators if you are serious about

Planning for profit next year

	Last year		Next year		Difference
	\$	%	\$	%	
Revenue	957,698	100.0	1,034,314	100.0	76,616
Direct Costs	329,448	34.4	292,711	28.3	-36,737
Gross Profit	628,250	65.6	741,603	71.7	113,353
Owner Compensation	62,250	6.5	113,775	11.0	51,524
Other Employee Costs	269,113	28.1	222,378	21.5	-46,736
All Other Operating Expenses	243,256	25.4	238,926	23.1	-4,330
Total Operating Expenses	574,619	60.0	575,079	55.6	460
Pre-tax profit	53,631	5.6	166,525	16.1	112,893
Owner Comp. + Profit	115,881	12.1	280,300	27.1	164,419

Source: 2004-2005 Cost of Doing Business Report

emulating their profit performance.

Use temporary labor. Reduce employees to the minimum level needed to service customers during off-peak periods and hire temporary labor for your peak season. Teachers and college students can be a source of talent willing to come to work for you summer after summer.

Use more technology. As you reduce staff, you need to find ways to increase production. Technological advances can help save time and allow you and your employees to work smarter and faster. New technological tools are able to integrate credit-card processing much faster. Driver's license imaging can automatically add critical information on the license to a rental contract. Rental software today can integrate faxing and e-mail to replace end-of-month processing of mailed statements, enable users to create and store any needed report, modify Microsoft Excel® spreadsheets any way the user wants, capture contract signatures in computer systems, automatically print safety instructions attached to contracts, generate missed rental and equipment utilization reports, move inventory from sales to rental and vice-versa, automatically remind counter people to ask about related item sales and rentals and interface with accounting systems.

With these tools, a rental company could increase revenue, save time, reduce expenses, limit liability and increase customer satisfaction while increasing profits.

In concept, the key to profitability is the right combination of revenue-increasing ideas combined with the appropriate expense-reduction ideas. Making good business decisions instead of responding to circumstances has been a proven and successful method for many rental stores. **RM**



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